Professor Steve Hanke – "Europe would be better off without Greece."

By Andrew Saks

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Professor of Applied Economics at Johns Hopkins University in Baltimore Steve Hanke advocates a Grexit, stating that the nation joined the Eurozone in order that it could intentionally have no financial discipline

Teetering on the brink of a vast fiscal abyss, Greece leads the other financially delinquent southern European nations in its prolonged near-bankruptcy and vast appetite for bailouts and lifeline after lifeline from the coffers of the European Union.

Currently, the European Central Bank remains exposed to a potential 190 billion euro liability should Greece exit the European Union as a result of a bond buying transaction a few years ago in which Greece was provided with 190 billion euros in capital, the collateral being near-worthless Greek banks, thus exposing the European Central Bank to a potential bad debt equal to a third of its entire capitalization.

The European Union, rather than stimulating the local economies of southern Europe, a region in which certain nations have 57% youth unemployment and very low productivity, has poured money into these nations only to find that it runs out quickly.

Professor Steve Hanke, a professor of Applied Economics at Johns Hopkins University in Baltimore echoed the thoughts of many in the Western business world at a news conference in Sofia, Bulgaria yesterday, advocating the introduction of a currency board.

"The best thing for Greece would be to get out, have the drachma and have a currency board because the currency board would do just what it does in Bulgaria, it would discipline the system" He said.

It became patently clear that the electorate in Greece does not favor the idea of generating enough revenue to restore the nation to an even financial keel earlier this year, when the socialist, anti-austerity Syriza party was elected, fueling further speculation among economists that Greece may exit the European Union as the Syriza party had made its intention clear to continue to spend.

Professor Hanke added “It would discipline the system because the finance ministry in Athens couldn’t go to the central bank and get credit. They could get drachma but they have to take euros or dollars into the currency board to get them.”

“The money supply in Greece has been contracting rapidly and the contraction has accelerated massively since the new government was elected three months ago in Greece and the reason that it is contracting is that about 85% of the money supply is created by commercial banks” continued Professor Hanke.

“All the commercial banks are bankrupt, meaning the four big commercial banks which have about 90% of all the assets in the banking system in Greece. My latest analysis indicates that they are all bankrupt and they will collapse unless they are bailed out for the third time. So the money supply keeps shrinking and the situation will be very bad in Greece” he stated.

Professor Hanke took the system in operation in Bulgaria as an example to follow. He stated that Bulgaria has a currency board and that the nation should stick to that particular system rather than concentrate its effort on joining the euro. Professor Hanke considers that this is a better method of preserving Bulgaria’s financial stability.

The currency board system pegs the lev to the euro at a fixed exchange rate and therefore matches the number of levs in circulation to the level of FX reserves.

“I think there’s absolutely no reason to get rid of the currency board. If you go in to the eurozone you’ll lose the discipline of the currency board,” said Professor Hanke, who advised Bulgaria’s President Petar Stoyanov on the introduction of the restrictive monetary mechanism in 1997 that ended a spiral of hyperinflation.

Controversial but indeed correct, Professor Hanke addressed the initial cause of the Greek debt “Why did Greece get in trouble? Because Greece is formally part of the eurozone. They got in trouble because the Greeks believed if they entered the eurozone they could have no fiscal discipline, they could have a fiscal mess and if they really got in trouble, the European Central Bank and the European Union will bail them out which is exactly what’s happened. So they were completely undisciplined, with huge fiscal deficits and huge debt, and the reason why is because they joined the eurozone and the eurozone has associated with what’s called the moral hazard … it’s a very dangerous situation.”